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DESIGNED HEAT & POWER
APPLICATION CENTER

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Pacific Region CHP Application Center
University of California
Energy and Resources Group
2105 Bancroft Way, 3rd Fl, MC 3830
Berkeley, CA 94720-3830

September 22, 2006

The Honorable Chairman and Members of
the Hawaii Public Utilities Commission
Kekuanoa Building
465 South King Street, 1st Floor
Honolulu, HI 96813

PUBLIC UTILITIES
COMMISSION

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Re: Docket No. 03-0371—In the Matter of the Public Utilities Commission Instituting a
Proceeding to Investigate Distributed Generation in Hawaii

Dear Commissioners:

The Pacific Region Combined Heat and Power Application Center (PRAC) is a United States (U.S.) Department of Energy and California Energy Commission sponsored education and outreach center, operating in the Pacific region of California, Hawaii, and Nevada. The PRAC is directed to promote the use of combined heat and power (CHP) as an energy efficiency improvement and cost containment measure for industrial and commercial energy customers. The center is operated by professors and research scientists at the University of California (Berkeley and Irvine campuses) and San Diego State University. The PRAC conducts educational events and seminars, conducts preliminary screenings for CHP projects, produces CHP example project fact sheets, and compiles state-level CHP baseline study and policy recommendation reports (<http://www.chpcenterpr.org>).

The PRAC leadership has recently learned that the Kauai Island Utility Cooperative (KIUC) intends to file proposed Standby Rate Tariffs on or before November 27, 2006. Pursuant to Rider S, the Standby Charge for distributed power generation (DG) projects would rise from the current level of \$5/kW to more than \$30/kW of standby demand per month.

From the limited information we have received, we believe that the proposed fee will have a significant negative impact on the net savings available from CHP installations, greatly increasing the simple payback period and making the projects economically unattractive. The proposed new fee translates into more than \$36,000 per year in standby fees for a small 100 kW CHP system, and approaching \$200,000 per year for a larger 500 kW project.

Such high standby charges are out of step with what other states are doing given the net benefits that CHP and other DG systems can have for ratepayers and utility grid operation. For example, California has waived standby charges for DG systems as their



benefits and grid impacts are being more carefully studied. The case for high standby charges made in the past by electric utilities has generally been rejected due to the statistical nature of DG system outages, and the almost negligible impact of a small percentage of system outages at any given time.

Electricity grids such as Hawaii's, that are confronting the challenges of meeting increases in load growth, provide particularly attractive settings for CHP. In these areas, CHP can improve energy efficiency and reduce costs for the customer, while also allowing the electric utility to defer costly system upgrades. The overall effect is cost savings, energy efficiency improvement, and environmental benefit, all enabled by the important principle of "customer choice."

We are concerned that KIUC's proposed standby rate will prevent implementation of a cost management and energy-efficiency enhancement option that is both reasonable and environmentally responsible. We request that the Commission carefully study the proposed rate and the way it is designed, to ensure that it does not unnecessarily impede the adoption of a highly energy efficient technology.

In this regard, we join with the comments of the U.S. Combined Heat & Power Association, filed October 11, 2006, to request hearings on the proposed standby charges of all of Hawaii's electric utilities. We ask that the Commission establish a new docket for standby rates so that all stakeholders can participate in this important proceeding.

On behalf of myself and the rest of the leadership of PRAC:

Prof. Daniel Kammen, Univ. of California - Berkeley
Prof. Scott Samuelsen, Univ. of California - Irvine
Prof. Asfaw Beyene, San Diego State University
Dr. Vincent McDonell, Univ. of California - Irvine
Asst. Prof. Alexander Farrell, Univ. of California - Berkeley
Dr. Chris Marnay, Ernest Orlando Lawrence Berkeley National Lab

I respectfully submit our concerns for your consideration.

Sincerely,

A handwritten signature in black ink, reading "Timothy E. Lipman".

Timothy E. Lipman, PhD, PRAC Co-Director